

Department of Health and Mental Hygiene
Child Care Subsidy Fraud Update

On August 10, 2010, as the result of an investigation conducted by the New York City Department of Investigation (“DOI”), the US Attorney’s Office filed a two count criminal complaint in the Southern District Court of New York, alleging mail fraud and conspiracy to collect corrupt payments related to New York City’s low-income child care subsidy program. The alleged conspiracy named four employees in the Health Department’s Bureau of Child Care, others in other City agencies, and several child care providers. The indictments alleged that the Health Department employees falsified records that enabled a group of child care centers to increase their enrollment and obtain permits for the purpose of billing other agencies for an inflated number of children. Following their suspension, all four Health Department staff members retired or resigned their positions. Two Health Department employees pleaded guilty.

This breach of trust prompted the Department to conduct a thorough audit of the Bureau of Child Care to determine areas of potential risk for fraudulent or inappropriate actions by regulatory staff and to assess the adequacy of existing protocols and procedures. Our internal audit was concluded on August 27, 2010 and made a number of recommendations to improve our oversight of permit issuance and related activities. At the same time, DOI provided the Department of Health and other City agencies a series of policy and procedure recommendations related to DOI’s investigation into the City’s subsidized child care system.

A number of significant changes have or are being implemented. They include:

1. Develop a fraud risk assessment unit.

Our audit found that procedures including the review of records to help prevent corruption rested too much in the hands of borough-level supervisors. A key recommendation resulting from the audit was the creation of a centralized fraud risk assessment process that utilizes data mining techniques to develop early indicators of potential fraudulent activity. DOI also recommended that the establishment of a Quality Control Unit to inspect and audit day care permit application files, in addition to enhanced supervisory review of data contained in proposed daycare permit applications. The Bureau of Child Care took the first steps towards such a system in October 2010, creating a Systemic Risk Assessment Unit, charged with reviewing data related to the bureau’s field activities and permitting process. The unit is responsible for independently auditing the work that occurs in each of the borough offices. The unit now conducts thorough case record reviews of 10% of permitting actions to ensure the legitimacy and completeness of required documents, the proper sequence of activities related to opening child care centers, and the accuracy and suitability of permits issued.

2. Use data mining techniques to detect questionable or fraudulent activities.

The Bureau of Child Care's System Risk Assessment Unit now works with the Bureau of Environmental Surveillance and Policy to mine administrative data related to permitting and inspections to detect unusual events or anomalous patterns in data associated with the opening and operation of child care programs. Reports evaluate individual employee, borough office and program activities for anomalies in the sequence and results of interactions with child care programs. The reports, some implemented and some in development, are run automatically and emailed on a regular basis to key managers. Where concerns are found, additional investigation is conducted by the System Risk Assessment Unit and senior bureau managers.

3. Improve data security

The Health Department found that the data system in use at the time of these events did not adequately prevent employees from inappropriately altering records. The Department has improved the security of its data system to further prevent access by current and former employees from functions that are beyond their authority. The Department's Division of Information and Informatics Technology is modifying the software to further segregate inspectional from oversight activities in the data system, ensuring that only authorized managers are able to modify records and issue finalized permits.

4. Improve data sharing among agencies involved in the oversight of child care programs, and the subsidy and reimbursement programs.

Though several agencies are involved in determining the eligibility of families and providers to receive child care vouchers, they do not routinely share all data about their activity. The Bureau of Child Care has provided the Agency for Children's Services personnel with direct access to its data system, enabling authenticated personnel to view all licensing, inspection, staffing and capacity data related to their contracted child care sites. DOI further recommended that the Health Department work with the Fire Department (which evaluates the fire safety of an establishment) and Buildings Department (which clears spaces for occupancy) to verify all the accuracy and authenticity of all certifications issued by those agencies which are submitted as part of a daycare permit application. The Health Department has been working with the Fire and Buildings Departments, and other government agencies involved in the child care subsidy program to determine the types of data that would be electronically exchanged.

In addition to the broader initiatives to develop systemic risk reduction protocols, the Department replaced the managing leadership in the Bureau of Child Care's Brooklyn office, where the four indicted employees worked. Although there is an ongoing investigation, the Department has not received any information to indicate the fraud spread beyond the Brooklyn office and associated child care programs.

The involvement of Health Department staff in this criminal complaint and the alleged abuse of the public dollars that fund the child care subsidy program is a serious breach of

the public trust. The Department of Health thanks DOI for its recommendations and looks forward to continuing to work together on this matter. The mission of the Bureau of Child Care is to safeguard the wellbeing of pre-school children throughout the early education child care system. The Department is committed to fully implementing policies and procedures to prevent our staff from engaging in inappropriate activities. .